

CITY OF SLATER

Independent Auditors' Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings

June 30, 2006

CITY OF SLATER

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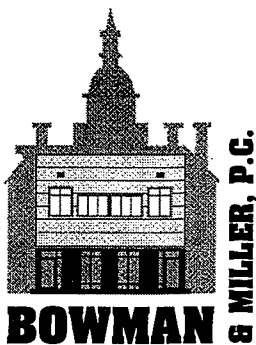
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CITY OF SLATER

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Rewerts	Mayor	Jan 2008
Gene Staples	Mayor Pro Tem	Jan 2010
Dave Cook	Council Member	Jan 2008
Louise O'Donnel	Council Member	Jan 2008
David Helland	Council Member	Jan 2010
Mark Pritchard	Council Member	Jan 2010
Gwen Ihle*	City Clerk	Jun 2006
Sue North	City Administrator/Clerk	Indefinite
Janice Halverson	City Treasurer	Jan 2008
Frank Feilmeyer	City Attorney	Jan 2008

*Retired June 30, 2006



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Suzanne M. Mead, CPA • suzanne@syscompia.com

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Slater, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Slater's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Slater, as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2006 on our consideration of the City of Slater's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Slater's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Slater provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2006 FINANCIAL HIGHLIGHTS

- The Cash basis net assets of the City's governmental activities decreased approximately \$71,000, due primarily to increased disbursements for street maintenance of approximately \$45,000 and increase in disbursements for the operation and construction of the swimming pool of approximately \$26,000.
- The cash basis net assets of the City's business type activities decreased approximately \$53,000 primarily to an increase in debt service disbursements in the sewer enterprise.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about bond and note maturities.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, general government, and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City..

The required financial statements for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$272,644 to \$201,419. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		Year ended June 30, 2006
Receipts:		
Program receipts:		
Charges for service	\$	77,583
Operating grants, contributions and restricted interest		192,142
General receipts:		
Property tax		378,411
Tax increment financing		152,168
Other City tax		138,232
Unrestricted interest on investments		6,528
Bond proceeds		388,310
Other general receipts		<u>35,442</u>
Total receipts		<u>1,368,816</u>
Disbursements:		
Public safety		122,105
Public works		225,450
Health and social services		2,968
General governmental		510,220
General government		126,836
Debt service		<u>452,462</u>
Total disbursements		<u>1,440,041</u>
Decrease in cash basis net assets		(71,225)
Cash basis net assets beginning of year		<u>272,644</u>
Cash basis net assets end of year	\$	<u>201,419</u>

The cash basis net assets of the City's governmental funds decreased approximately \$71,000 due primarily to increased disbursements for street maintenance of approximately \$45,000 and an increase in disbursements for the operation and construction of the swimming pool of \$26,000.

Changes in Cash Basis Net Assets of Business Type Activities		Year ended June 30, 2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$	168,323
Sewer		137,613
General receipts:		
Unrestricted interest on investments		248
Bond proceeds		2,000
Other general receipts		<u>13,327</u>
Total receipts		<u>321,511</u>
Disbursements:		
Water		175,787
Sewer		<u>198,955</u>
Total disbursements		<u>374,742</u>
Decrease in cash balance		(53,231)
Cash basis net assets beginning of year		<u>127,181</u>
Cash basis net assets end of year	\$	<u><u>73,950</u></u>

The total business type activities cash basis net assets decreased from a year ago, decreasing from \$127,181 to \$73,950. The cash basis net assets of the City's business activities decreased primarily to an increase in debt service disbursements in the sewer enterprise.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Slater completed the year, the governmental funds reported a combined fund balance of \$201,419, a decrease of approximately \$71,000 below last year's total of \$272,644. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$70,146 from the prior year due to increased disbursements for the operation and construction of the swimming pool.
- The Road Use Tax Fund cash balance decreased \$33,464 to \$10,660 during the year. The decrease is due to more spending for street maintenance in fiscal year 2006.
- The Tax Increment Financing Fund cash balance increased \$1,457 due to receipts exceeding required disbursements by that amount.
- The Debt Service Fund cash balance increased \$30,928 due to property tax receipts exceeding debt service obligations by that amount.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$3,543 to \$49,220, due primarily to increased usage for water.
- The Sewer Fund cash balance decreased by \$56,774 to \$24,730, due primarily to the debt service requirements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget three times. The last amendment was approved on June 5, 2006 and resulted in an increase in disbursements relating primarily to the swimming pool project.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$2,457,000 in notes and other long-term debt outstanding, compared to \$2,400,000 outstanding at June 30, 2005, as follows:

Outstanding Debt at Year-End		June 30, 2006
General obligation bonds and notes	\$	1,180,000
Water revenue notes		35,000
Sewer revenue notes		<u>1,242,000</u>
Total	\$	<u>2,457,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,180,000 is significantly below its constitutional debt limit of \$3,106,326.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Slater's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities.

Amounts available for appropriation in the operating budget are \$1,278,306, a decrease of 25.2% from the final 2006 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sue North, City Administrator, 105 Greene Street, Slater, Iowa 50244.

CITY OF SLATER
Statement of Activities and Net Assets-Cash Basis
As of and for the year ended June 30, 2006

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 122,105	-	14,351
Public works	225,450	-	109,346
Health and social services	2,968	-	-
Culture and recreation	510,220	77,583	68,445
General government	126,836	-	-
Debt service	452,462	-	-
Total governmental activities	<u>1,440,041</u>	<u>77,583</u>	<u>192,142</u>
Business type activities:			
Water	175,787	168,323	-
Sewer	198,955	137,613	-
Total business type activities	<u>374,742</u>	<u>305,936</u>	<u>-</u>
Total	<u>\$ 1,814,783</u>	<u>383,519</u>	<u>192,142</u>

General receipts:

Property tax levied for:
 General purposes
 Debt service
 Tax increment financing
 Other city taxes
Licenses and permits
Unrestricted interest on investments
Bond proceeds
Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

 Streets
 Cemetery
 Debt service

Unrestricted

 Designated for specific purposes
 Undesignated

Total cash basis net assets

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(107,754)	-	(107,754)
(116,104)	-	(116,104)
(2,968)	-	(2,968)
(364,192)	-	(364,192)
(126,836)	-	(126,836)
(452,462)	-	(452,462)
(1,170,316)	-	(1,170,316)
-	(7,464)	(7,464)
-	(61,342)	(61,342)
-	(68,806)	(68,806)
(1,170,316)	(68,806)	(1,239,122)
205,805	-	205,805
172,606	-	172,606
152,168	-	152,168
138,232	-	138,232
2,668	-	2,668
6,528	248	6,776
388,310	2,000	390,310
32,774	13,327	46,101
1,099,091	15,575	1,114,666
(71,225)	(53,231)	(124,456)
272,644	127,181	399,825
\$ 201,419	73,950	275,369
\$ 10,660	-	10,660
7,964	-	7,964
32,385	13,913	46,298
101,558	-	101,558
48,852	60,037	108,889
\$ 201,419	73,950	275,369

CITY OF SLATER
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

		Special Revenue	
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 205,805	-	-
Tax increment financing	-	-	152,168
Other city tax	138,232	-	-
Licenses and permits	2,668	-	-
Use of money and property	6,715	-	-
Intergovernmental	82,609	109,346	-
Charges for service	77,583	-	-
Miscellaneous	32,378	323	-
Total receipts	545,990	109,669	152,168
Disbursements:			
Operating:			
Public safety	122,105	-	-
Public works	82,317	143,133	-
Health and social services	2,968	-	-
Culture and recreation	510,220	-	-
General government	126,836	-	150,711
Debt service	-	-	-
Total disbursements	844,446	143,133	150,711
Excess (deficiency) of receipts over (under) disbursements	(298,456)	(33,464)	1,457
Other financing sources (uses):			
Bond proceeds	228,310	-	-
Total other financing sources (uses)	228,310	-	-
Net change in cash balances	(70,146)	(33,464)	1,457
Cash balances beginning of year	220,556	44,124	-
Cash balances end of year	\$ 150,410	10,660	1,457
Cash Basis Fund Balances			
Reserved:	\$		
Debt service	-	-	-
Unreserved:			
General fund:			
Designated for specific purposes	101,558	-	-
Undesignated	48,852	-	-
Special revenue funds	-	10,660	1,457
Permanent fund	-	-	-
Total cash basis fund balances	\$ 150,410	10,660	1,457

Debt Service	Trust and Agency Funds	Total
172,606	-	378,411
-	-	152,168
-	-	138,232
-	-	2,668
-	-	6,715
-	-	191,955
-	-	77,583
73	-	32,774
172,679	-	980,506
-	-	122,105
-	-	225,450
-	-	2,968
-	-	510,220
-	-	277,547
301,751	-	301,751
301,751	-	1,440,041
(129,072)	-	(459,535)
160,000	-	388,310
160,000	-	388,310
30,928	-	(71,225)
-	7,964	272,644
30,928	7,964	201,419
30,928	-	30,928
-	-	101,558
-	-	48,852
-	-	12,117
-	7,964	7,964
30,928	7,964	201,419

CITY OF SLATER
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 168,323	137,613	305,936
Miscellaneous	7,959	5,368	13,327
Total operating receipts	176,282	142,981	319,263
Operating disbursements:			
Business type activities	141,944	105,094	247,038
Total operating disbursements	141,944	105,094	247,038
Excess of operating receipts over operating disbursements	34,338	37,887	72,225
Non-operating receipts (disbursements):			
Interest on investments	248	-	248
Bond proceeds	-	2,000	2,000
Debt service	(33,843)	(93,861)	(127,704)
Total non-operating receipts (disbursements)	(33,595)	(91,861)	(125,456)
Excess (deficiency) of receipts over (under) disbursements	743	(53,974)	(53,231)
Operating transfers in (out)	2,800	(2,800)	-
Net change in cash balances	3,543	(56,774)	(53,231)
Cash balances beginning of year	45,677	81,504	127,181
Cash balances end of year	\$ 49,220	24,730	73,950
Cash Basis Fund Balances			
Reserved for debt service	\$ 6,058	7,855	13,913
Unreserved	43,162	16,875	60,037
Total cash basis fund balances	\$ 49,220	24,730	73,950

CITY OF SLATER

Notes to Financial Statements

June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The City of Slater is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1889 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Slater has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

CITY OF SLATER
Notes to Financial Statements (Continued)
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for tax increment financing receipts.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system

C. Measurement Focus and Basis of Accounting

The City of Slater maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods

CITY OF SLATER
Notes to Financial Statements (Continued)
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

Note 2 - Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Note 3 - Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$13,271 equal to the required contribution for that year.

CITY OF SLATER
Notes to Financial Statements (Continued)
June 30, 2006

Note 4 – Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, water and sewer revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds and Notes				Total	
	Principal	Interest	Water		Sewer		Principal	Interest
2007	\$ 126,000	46,257	35,000	1,347	57,000	37,260	2188,000	84,864
2008	128,000	41,130	-	-	59,000	35,550	187,000	76,680
2009	134,500	36,218	-	-	61,000	33,780	195,500	69,998
2010	140,000	31,025	-	-	62,000	31,950	202,000	62,975
2011	141,500	25,600	-	-	64,000	30,090	205,500	55,690
2012	112,000	20,065	-	-	66,000	28,170	178,000	48,235
2013	113,000	15,742	-	-	68,000	26,190	181,000	41,932
2014	119,500	11,365	-	-	70,000	24,150	189,500	35,515
2015	121,000	6,785	-	-	72,000	22,050	193,000	28,835
2016	24,500	2,010	-	-	75,000	19,890	99,500	21,900
2017	20,000	840	-	-	77,000	17,640	97,000	18,480
2018	-	-	-	-	79,000	15,330	79,000	15,330
2019	-	-	-	-	81,000	12,690	81,000	12,690
2020	-	-	-	-	84,000	10,530	84,000	10,530
2021	-	-	-	-	86,000	8,010	86,000	8,010
2022	-	-	-	-	89,000	5,430	89,000	5,430
2023	-	-	-	-	92,000	2,760	92,000	2,760
	<u>\$ 1,180,000</u>	<u>237,037</u>	<u>35,000</u>	<u>1,347</u>	<u>1,242,000</u>	<u>361,470</u>	<u>2,457,000</u>	<u>599,854</u>

The water and sewer revenue bonds note were issued for construction of water and wastewater projects of the City. The resolution providing for the issuance of the revenue bonds include the following provisions: (a) the bonds will only be redeemed from the future earnings of the enterprise activity funds and the bond holders hold a lien on the future earnings of the funds, (b) sufficient monthly transfers shall be made to the separate water and sewer bond sinking accounts for the purpose of making the bond principal and interest payments when due.

Note 5 – Risk Management

The City of Slater is exposed to various risks of loss related to torts; thefts, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF SLATER
Notes to Financial Statements (Continued)
June 30, 2006

Note 6 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 12,711
Sick leave	<u>38,647</u>
Total	<u>\$ 51,358</u>

The liability has been computed based on rates of pay in effect at June 30, 2006.

Note 7 – Interfund Transfers

The detail of the interfund transfer for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Enterprise: Water Revenue	Enterprise: Sewer Revenue	<u>\$2,800</u>

Note 8 – Pending Litigation and Commitments

The City is involved in a contract dispute relating to the construction of the swimming pool and water slide. Also, pending the outcome of the contract dispute, the City could owe \$104,679 for final construction costs. As of June 30, 2006 the City owed \$3,211 in legal fees relating to the contract dispute.

CITY OF SLATER

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-Budget and Actual (Cash Basis)

All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 378,411	-
Tax increment financing	152,168	-
Other city tax	138,232	-
Licenses and permits	2,668	-
Use of money and property	6,715	248
Intergovernmental	191,955	-
Charges for services	77,583	305,936
Miscellaneous	32,774	13,327
Total receipts	<u>980,506</u>	<u>319,511</u>
Disbursements:		
Public safety	122,105	-
Public works	225,450	-
Health and social services	2,968	-
Culture and recreation	510,220	-
General government	126,836	-
Debt service	452,462	-
Business type activities	-	374,742
Total disbursements	<u>1,440,041</u>	<u>374,742</u>
Excess (deficiency) of receipts over (under) disbursements	(459,535)	(55,231)
Other financing sources	<u>388,310</u>	<u>2,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(71,225)	(53,231)
Balances beginning of year	<u>272,644</u>	<u>127,181</u>
Balances end of year	<u>\$ 201,419</u>	<u>73,950</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
378,411	370,629	370,629	7,782
152,168	147,326	147,326	4,842
138,232	136,439	136,439	1,793
2,668	1,490	1,490	1,178
6,963	8,607	8,607	(1,644)
191,955	148,258	148,258	43,697
383,519	424,060	424,060	(40,541)
46,101	44,790	46,995	(894)
1,300,017	1,281,599	1,283,804	16,213
122,105	96,996	132,281	10,176
225,450	193,679	228,679	3,229
2,968	3,218	3,218	250
510,220	201,262	606,199	95,979
126,836	101,334	128,809	1,973
452,462	319,132	319,132	(133,330)
374,742	261,626	289,626	(85,116)
1,814,783	1,177,247	1,707,944	(106,839)
(514,766)	104,352	(424,140)	(90,626)
390,310	-	399,256	(8,946)
(124,456)	104,352	(24,884)	(99,572)
399,825	1,219,580	1,219,590	(819,765)
275,369	1,323,932	1,194,706	(919,337)

CITY OF SLATER

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, three budget amendments increased budgeted disbursements by \$530,697. The budget amendments are reflected in the final amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

CITY OF SLATER
Schedule of Indebtedness
Year Ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Library	10-18-90	7.10 - 8.75 %	\$ 175,000
Water utility, maintenance shop, fire station and library roof	12-01-00	5.75 %	265,000
Pool	05-01-04	3.75 %	700,000
Fire truck	03-01-05	4.00 %	135,000
Pool	11-15-05	4.00 %	75,000
Pool, water utility, maintenance shop, fire station and library roof	05-01-06	3.80 - 4.70 %	320,000
Total			
Revenue bonds and notes:			
Water	05-01-91	7.00 - 7.70 %	285,000
Sewer	11-13-02	3.00 %	1,500,000
Total			

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	20,000	-	-	20,000	1,480	-
	185,000	-	185,000	-	10,638	-
	700,000	-	60,000	640,000	26,250	-
	135,000	-	10,000	125,000	6,750	-
	-	75,000	-	75,000	1,633	-
	-	320,000	-	320,000	-	-
\$	1,040,000	395,000	255,000	1,180,000	46,751	-
\$	65,000	-	30,000	35,000	3,842	-
	1,295,000	2,000	55,000	1,242,000	38,861	-
\$	1,360,000	2,000	85,000	1,277,000	42,703	-

CITY OF SLATER
Bond and Note Maturities
June 30, 2006

General Obligation Bonds and Notes

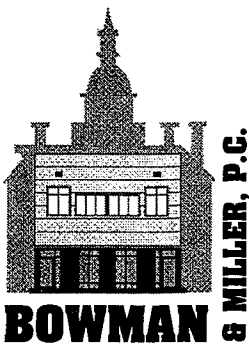
<u>Year</u> <u>Ending</u> June 30,	<u>Library</u>		<u>Pool</u>	
	<u>Issued Oct. 18, 1990</u>		<u>Issued May 1, 2004</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
2007	7.40%	\$ 20,000	3.75%	\$ 60,000
2008	7.40%	-	3.75%	65,000
2009	-	-	3.75%	65,000
2010	-	-	3.75%	70,000
2011	-	-	3.75%	70,000
2012	-	-	3.75%	75,000
2013	-	-	3.75%	75,000
2014	-	-	3.75%	80,000
2015	-	-	3.75%	80,000
2016	-	-	-	-
2017	-	-	-	-
Total		\$ <u>20,000</u>		\$ <u>640,000</u>

Fire Truck			Pool		Pool, water utility, maintenance shop, fire station and library roof		
Issued Mar. 1, 2005			Issued May 1, 2006		Issued May 15, 2006		
Interest Rate	Amount		Interest Rate	Amount	Interest Rates	Amount	Total
4.00%	\$	11,000	4.00%	\$ 5,000	3.80%	\$ 30,000	\$ 126,000
4.00%		12,000	4.00%	6,000	3.90%	45,000	128,000
4.00%		13,000	4.00%	6,500	3.95%	50,000	134,500
4.00%		13,000	4.00%	7,000	4.00%	50,000	140,000
4.00%		14,000	4.00%	7,500	4.10%	50,000	141,500
4.00%		14,000	4.00%	8,000	4.20%	15,000	112,000
4.00%		15,000	4.00%	8,000	4.30%	15,000	113,000
4.00%		16,000	4.00%	8,500	4.40%	15,000	119,500
4.00%		17,000	4.00%	9,000	4.50%	15,000	121,000
-		-	4.00%	9,500	4.60%	15,000	24,500
-		-	4.00%	-	4.70%	20,000	20,000
	\$	125,000		\$ 75,000		\$ 320,000	\$ 1,180,000

CITY OF SLATER
Bond and Note Maturities (Continued)
June 30, 2006

Revenue Bonds and Notes

<u>Year</u> <u>Ending</u> June 30,	<u>Water</u>		<u>Sewer</u>		<u>Total</u>
	<u>Issued May 1, 1991</u>		<u>Issued Nov.13, 2002</u>		
	<u>Interest</u> <u>Rate</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>	
2007	7.70%	\$ 35,000	3.00%	\$ 57,000	\$ 92,000
2008	-	-	3.00%	59,000	59,000
2009	-	-	3.00%	61,000	61,000
2010	-	-	3.00%	62,000	62,000
2011	-	-	3.00%	64,000	64,000
2012	-	-	3.00%	66,000	66,000
2013	-	-	3.00%	68,000	68,000
2014	-	-	3.00%	70,000	70,000
2015	-	-	3.00%	72,000	72,000
2016	-	-	3.00%	75,000	75,000
2017	-	-	3.00%	77,000	77,000
2018	-	-	3.00%	79,000	79,000
2019	-	-	3.00%	81,000	81,000
2020	-	-	3.00%	84,000	84,000
2021	-	-	3.00%	86,000	86,000
2022	-	-	3.00%	89,000	89,000
2023	-	-	3.00%	92,000	92,000
Total		\$ 35,000		\$ 1,242,000	\$ 1,277,000



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report on
Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Governmental Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Slater, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 25, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Slater's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Slater's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Slater's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations contracts, and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Slater and other parties to whom the City of Slater may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Slater during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 25, 2006

CITY OF SLATER
Schedule of Findings
Year Ended June 30, 2006

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF SLATER
Schedule of Findings (Continued)
Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting
- (2) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties the City should utilize administrative personnel to provide additional internal control through review of financial transactions and report.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Improvements to fund balance reports are being made to help the City monitor balances in a more timely and accurate manner.

Conclusion – Response accepted.

III-B-06 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

III-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF SLATER
Schedule of Findings (Continued)
Year Ended June 30, 2006

- III-D-06 Business Transactions – During the year ended June 30, 2006, there were no business transactions between the City and City officials or employees were noted.
- III-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-06 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.
- III-G-06 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-H-06 Water Revenue Bonds - The provisions of the resolutions for the issuance of the revenue bonds relating to funding of the sinking funds were followed. However, the resolutions also requires an annual audit with copies to be provided to the original purchaser. The City has not complied with this provision.

Response – The City will address the requirements of the annual audit.

Conclusion – Response accepted.

CITY OF SLATER

Staff

This audit was performed by:

Bowman & Miller, P.C.
Certified Public Accountants
Marshalltown, IA 50158

Personnel:

James R. Bowman, CPA, Manager

Lowen K. Poock, PC